

Steven L. Beshear
Governor

Leonard K. Peters, Secretary
Energy and Environment
Cabinet



Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Linda K. Breathitt
Commissioner

NEWS RELEASE

Contact:
Andrew Melnykovich
502-782-2564 or 502-564-3940
502-330-5981 (cell)
Andrew.Melnykovich@ky.gov

PSC Reduces Kentucky-American Water Rate Increase *Commission cuts requested new revenue by 44%; rejects surcharges; Increases oversight of acquisition of municipal water systems*

FRANKFORT, Ky. (Oct. 25, 2013) – The Kentucky Public Service Commission (PSC) today granted Kentucky-American Water Co. a rate adjustment that will increase its annual revenue by \$6.9 million, or slightly more than half the amount requested by the company.

As a result, an average residential customer using 5,000 gallons per month will see the monthly bill rise from \$35.40 to \$38.95, an increase of \$3.55, or about 10 percent.

Kentucky-American proposed in December to increase its annual revenue by \$12.32 million. A residential customer using 5,000 gallons per month would have seen the monthly bill increase to \$41.23, or by about 16.5 percent.

The company said in its application that a rate increase is needed to recover the cost of capital improvements made since the last rate case in 2010.

As permitted by Kentucky law, Kentucky-American put its proposed rates into effect on July 27. As a result of today's PSC decision to set lower rates, the company will have to refund the amount it has over-collected, plus interest, to its customers.

Kentucky-American proposed to increase the residential monthly service charge from \$8.90 to \$14 and to raise the usage charge from \$5.30 per 1,000 gallons to \$5.44 per 1,000 gallons. The PSC set the monthly charge at \$12.45 and left the usage charge unchanged.

To arrive at the lower rates, the PSC made several adjustments to Kentucky-American's request. The largest adjustment reduced the rate of return for company shareholders. Other changes included reducing Kentucky-American's allowable cash reserves and adjusting projected water usage.

Kentucky-American Water serves about 124,300 customers in 10 counties in central Kentucky. All but about 3,900 are in Lexington and surrounding communities. The company also is a wholesale water provider to five municipalities, three water districts and a water association.

-more-

Kentucky-American Water is a subsidiary of the American Water Works Company.

In addition to trimming the rate increase, the PSC rejected Kentucky-American's request for two annual rate adjustment mechanisms. The mechanisms would have imposed a surcharge to cover the cost of infrastructure repairs and replacement and adjusted rates to account for fluctuations in the cost of energy and chemicals.

Kentucky-American Water said in its application that the two adjustment mechanisms would produce less frequent and smaller base rate adjustments.

The PSC noted that Kentucky-American has been filing for rate adjustments every two years and that added revenue from the infrastructure surcharge would have a "minimal impact" on the pace of water main improvements. Similarly, the PSC found that the amount Kentucky-American spends on chemicals and power is relatively small and does not justify changing the way rates are determined.

Also addressed in today's order is Kentucky-American Water's acquisition of municipal water systems that are not regulated by the PSC. The PSC specifically cited its concerns over the purchase of the Owenton city system and the amount Kentucky-American Water spent on necessary improvements to that system.

Municipal systems are not under PSC jurisdiction. Therefore, Kentucky-American Water does not require PSC approval prior to acquiring systems such as Owenton.

However, the PSC has the authority to examine whether the acquisition will adversely affect existing customers, the PSC noted in today's order.

The PSC directed Kentucky-American Water to provide 90 days written notice of its intent to acquire a municipal water system. The PSC will then review the proposed acquisition to evaluate how it will affect the company's existing customers, including impacts on rates.

Acquisitions of water systems that are regulated by the PSC will continue to be reviewed as they are now, with the effect on existing ratepayers considered when determining whether the transaction is in the public interest.

Today's order also considers the impact of Kentucky American Water's 2012 withdrawal from a contract with Lexington-Fayette County Urban Government (LFUCG) to provide billing for LFUCG's sewer, drainage and solid waste services. LFUCG argued that Kentucky-American Water's annual revenue should be reduced by the \$1.6 million it voluntarily relinquished when it ceased providing the billing services.

The PSC disagreed, saying that the practical effect of accepting the LFUCG position would be to penalize Kentucky-American Water for no longer providing a service that falls outside its duties as a regulated utility. The contract had always been subject to termination by either party, the PSC noted.

The PSC said it found no legal justification to support the idea that Kentucky-American Water has any obligation to continue providing the billing services or to be penalized if it does not.

Furthermore, Kentucky-American Water had legitimate reasons for wishing to terminate the billing arrangement, the PSC said. Bills are less confusing and customers see a clearer connection between their water usage and the amount of their bill, which helps promote conservation. Fewer Kentucky-American Water customers are late in paying their bills, according to evidence in the case.

Kentucky-American Water acknowledged that the loss of the LFUCG revenue has the effect of adding 90 cents a month to the typical residential customer's bill.

The PSC said that although it "is sympathetic to LFUCG's arguments, we lack the legal authority to prevent Kentucky-American from exercising its right under the billing agreements to exit the contract arrangement."

In addition to Kentucky-American Water, parties to the rate case included the Kentucky Office of Attorney General, Lexington-Fayette County Urban Government, and the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties.

A public meeting in the case was held May 28 in Lexington. The evidentiary hearing was held in Frankfort on June 4 and 5.

Today's order, video recordings of the public meeting and hearing and case documents are available on the PSC website, psc.ky.gov. The case number is 2012-00520.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 90 employees.